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TESTIMONY BEFORE THE
HOUSE TAX POLICY COMMITTEE
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Thank you for the opportunity to present testimony before the House Tax Policy Committee. My name is Eric J. Schneidewind and I am President of AARP Michigan.

AARP opposes the Governor's tax plan to increase taxes on seniors and the working poor for three reasons:

1. The plan unfairly burdens seniors and the working poor, many of whom are also seniors, and is not part of a shared effort to improve the overall budget.
2. Services used by seniors and the working poor actually get worse, not better.
3. The plan uses over $1.6 billion of new individual taxes in Fiscal 2011-12, most of which are paid by seniors and the working poor, to fund an 86% tax reduction for business that is not guaranteed to produce any new jobs.

For these reasons, the plan is not fair.

Let me amplify on this position.

A. The Governor's plan burdens Michigan seniors and the working poor with the majority of $1.6 billion of new individual taxes.[1]

Today's retirees living on pensions did not anticipate that they would be burdened with hundreds or thousands of dollars of new taxes. A review of the numerous examples of taxpayer impact presented by Lieutenant Governor Calley to this Committee on March 2, 2011 indicates that any individual or couple with a substantial pension income will be worse off under the Governor's tax plan, typically paying hundreds or thousands of dollars of new taxes or losing hundreds of dollars of credits.

In the Lieutenant Governor's examples, a single senior with $34,400 of income and a senior couple with $36,000 of income would be $740 and $544 worse off, respectively. Unlike people in the workforce who will be employed for years to come, retirees and particularly those in the later years of retirement simply have no way to supplement their income to adjust to this increased burden. These aged retirees planned, often down to the last few dollars, to balance their personal budgets without assuming that they would pay hundreds or thousands of dollars of new taxes.

The working poor, many of whom are senior citizens, are limited to four years of public assistance under the Governor's budget. Yet a single working mother employed at a poverty level, minimum wage job would be deprived of a few hundred dollars of tax credits which are

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[1] Senate Fiscal Agency Overview of Governor Snyder's Fiscal Year 2011-12 Budget, Feb. 23, 2011. Estimate of <u>full year</u> 2012 impact.

tied to her earnings and which, therefore, promote self-sufficiency rather than dependency. The fact that this revenue would be used to fund an 86% tax cut for businesses is simply unfair.[2]

In fact, taxpayers receiving pensions and the working poor would pay about 80% of the total $1.6 billion per full year in new taxes. Taxation of pensions increases revenue by $900 million, loss of the $2300 senior special exemption costs $37 million, the loss of the interest, dividend and capital gains deductions raises senior taxes $52 million and a senior pro rata share (at 12%) of the additional miscellaneous tax increases would be about $26 million. In addition, the loss of the Earned Income Tax Credit is approximately $360 million.[3] To disproportionately shift a total of $1.375 billion of tax increases onto seniors and the working poor is not fair.

Under the Governor's proposal, individual income taxes would increase 32% and the portion of State General Fund for General Purpose and School Aid Fund monies paid by individuals would increase from 31% to 41% while the business share would shrink from 11% to 1.6%, an 86% reduction.[4]

A plan that produces these results does not meet any test of fairness or shared sacrifice.

And what Value for Money do seniors and the working poor get for this extraordinary sacrifice?

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[2] House Fiscal Agency memo (3/2/11) to House Tax Policy Committee, p. 1.

[3] Cost estimates provided by SFA on 3/8/11 per request of Senator Whitmer.

[4] Governor Rick Snyder's Fiscal Year 2011-12 State Budget Recommendation, Gary Olsen, Public Sector Consultants, February, 2011.

B. The Governor's plan balances a deficit estimated at over $1.5 billion entirely with cuts so none of the $1.6 billion of increased individual tax revenue is used to improve services or balance the budget.[1]

Under the Governor's budget plan, increased revenue paid by seniors and the working poor does not produce new investment in our crumbling roads and bridges. The Governor's budget decreases funding for local communities and K-12 education which will reduce the quality of local services and schools. These cuts will inevitably result in lower property values for senior citizens or higher local taxes to make up for the cuts. Reductions in funding for Michigan universities will result in higher tuition for our children and grandchildren.

Under the Governor's budget, taxation becomes less fair, with seniors and the working poor paying most of the $1.6 billion of new individual taxes, yet there is no improvement in services or infrastructure, and no improvement in the overall budget outlook. Who would want to retire in this kind of Michigan? What business would want to locate here even with lower taxes?

Instead, we should use any new revenue to invest in Michigan, building a state that will be a destination of choice for retirees and a preferred location for new businesses.

C. The Governor's plan uses all tax increases on seniors and the working poor to fund an 86% tax reduction for business.[2]

While individual taxes go up 32%, business taxes are cut 86%.[2]

While the share of General Funds and School Aid Funds paid by individuals increases from 31% to 41%, the share of the total budget paid by business drops from 11% to 1.6%.[4] According to data from the Senate Fiscal Agency, the total business share of state tax collections would be among the 3 lowest in the nation.[5]

While seniors and the working poor immediately pay higher taxes on pension income, businesses are allowed to continue existing credits that will cost the Treasury about $500 million per year in the 2012 Fiscal Year.[2]

And what about new jobs? The Lieutenant Governor candidly admitted that there are no guarantees that the Governor's business tax cuts will produce new jobs. What happens if another state equals Michigan's tax cuts? What if the Michigan infrastructure and services become so poor that businesses choose not to locate in this state? In that case, Michigan will have higher personal taxes, worse services and no new jobs.

Conclusion

The Budget debate must take a new direction. That new direction should start with a call for all of us: individuals and businesses, to equitably share in the sacrifices that will rebuild our roads,

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[5] SFA Analysis of Reliance on Business Taxes Fourth Quarter 2009 – Third Quarter 2010 comparing total tax collections with all current Michigan Business Tax collections as a % and ranking States. I adjusted current collections to levels recommended in the Governor's budget.

strengthen our schools and universities and restore community services to create a Michigan where businesses can prosper and all of our citizens can lead lives of dignity and purpose.

Thank You.